

## Budget Tidbits... just the facts

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### Budget Brief #2: (1/22/07)

#### Nowhere Left to Cut?

*Part two of a multi-part look at the Governor's budget and what it means for the future.*

#### A. Governor: Not Much Left to Cut in State Government

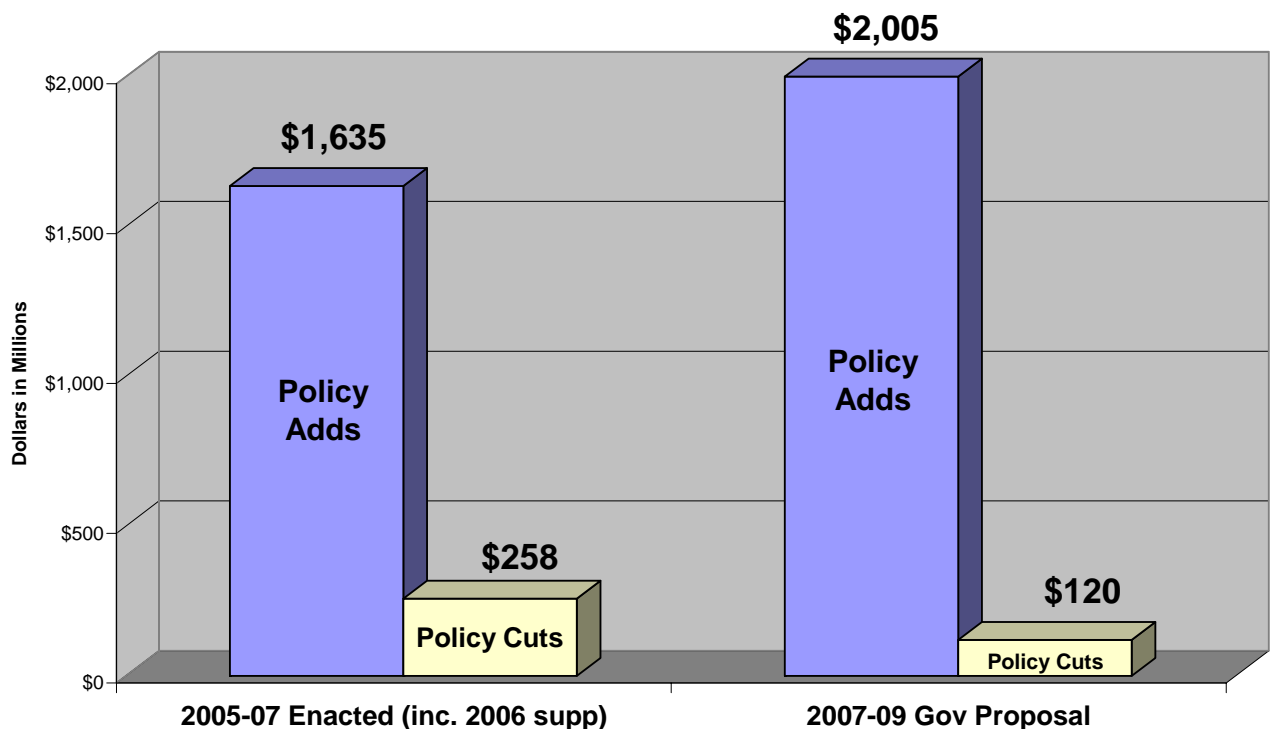
Shortly after her budget came out, Governor Gregoire was asked by *The Olympian* newspaper:

Q: Where are the cuts in your budget? Are there no areas or programs the state could do without?

A: We went through the POG (Priorities of Government) process. I think it became clear over the last two bienniums: Cuts were made to the point where there wasn't a whole lot more to cut. . . .  
The POG process said . . . fundamentally, don't make more cuts.<sup>1</sup>

#### B. Managing the Budget: Not Much Evidence of Critically Examining Spending

##### New Policy Spending vs. Reductions During Governor's Tenure



\* Data: LEAP, W&M, OPR. 2005-07 GFS & ELTA, excludes savings from suspending unfunded liability payment & punting gain-sharing issue. 2007-09 Near GFS.

- New and expanded programs have been created at 10 times the rate existing ones are reduced.

### C. Some Constructive Suggestions for Savings

Before beginning it's worth restating a point from the last tidbit: Revenue growth is sufficient to fund everything the state's currently doing – plus add half-a-billion to K-12 salaries and lower class sizes – without ever touching the state's reserve. *The forecasted deficit can be completely avoided merely by restraining the creation of new policy spending. The issue is not cuts, but limiting new spending.*

That said, it's vital to reevaluate current spending and here are just a few examples of savings– many which have passed the Senate in a bipartisan manner in recent years – for budget writers to consider:

1. Tort Liability – The state spends over \$150 million in the upcoming budget on tort liability, more than twice current spending on state parks and the equivalent of 15,000 new higher education enrollments. Costs have increased nearly 500 percent in the last decade. Requiring extraordinary judgments to gain legislative approval – as is done in Florida – could reduce costs by \$40 million, according to a 2003 analysis.<sup>2</sup>
2. Time-Limit General-Assistance Unemployable Program – The GAU program provides a state-funded cash grant and health care to the temporarily unemployed. Individuals unemployable for the long-term are eligible for federal coverage. Washington, however, does not time-limit the program, permitting individuals to receive assistance for years on end. Caseloads have doubled in just six years, despite a strong economy. A 2004 fiscal note indicated \$84 million in savings from imposing a time-limit.<sup>3</sup>
3. Anti-Smoking Spending – The state spends \$52 million a biennium on anti-smoking efforts, and the Governor proposes an additional \$40 million in resources in 2007-09. As one colleague put it, citizens were constantly inundated with ads in the 2004 Governor's election for a fraction of the cost.
4. Career Students – A 2004 study found that 6,900 higher education students had more than 125 percent of the credits needed to graduate. Yet the state continues to subsidize these students. Limiting the state's subsidy to 125 percent of the credits needed to graduate would free up state funds for new enrollments.<sup>4</sup>
5. Competitive Contracting – A recent legislative audit found the state had engaged in virtually no competitive contracting of services, despite being authorized five years ago.<sup>5</sup> It only makes sense that the state should be examining opportunities to provide services more cost-effectively.
6. Basic Health Plan Reforms – The BHP is supposed to be the state-funded health care program for the uninsured poor. Yet there are no requirements to be either uninsured or poor. Unlike other states, Washington has only an income eligibility test – not an asset test – meaning asset-rich individuals can be on the BHP. Plus there is no requirement to be uninsured when applying. A recent audit found a large share of new enrollees had health insurance at the time they enrolled in BHP, and the biggest reason they enrolled was taxpayer-subsidized BHP coverage was cheaper.<sup>6</sup>
7. Governor's DC Office – Gov. Gregoire opened up an office in Washington, D.C. in 2005 (an office that Gov. Locke had closed in 2002). This was done without seeking a legislative appropriation or approval and during a budget cycle in which taxes were raised by more than \$400 million.

8. Privatize Uncollectible Child Support – The state writes-off a significant amount of child support it is owed.<sup>7</sup> Hiring private collectors on a contingency fee for these claims is a source of untapped revenue.

#### **D. What Does it Mean for Future?**

The Governor's own budget office projects her proposal would turn a nearly \$2 billion surplus into a \$1.2 billion deficit in the following budget. Even this likely understates the problem, as their forecast assumes a better economy in 2009-11 than 2007-09, a conclusion directly contradicted by the state's chief economist.<sup>8</sup>

Realistically, there are three options to address the deficit if cuts are off the table: skipping pension payments, tapping the proposed constitutional rainy day fund in good economic times or raising taxes. And only the last option can provide enough revenue to fully close the gap.

#### **Bottom Line**

If the Governor believes there are no programs or spending the state could do without, then how would she solve the anticipated billion-dollar plus deficit brought on by her budget proposal?

1. "Gregoire's goals: Challenges & golden opportunities in '07", *The Olympian* (1/8/2007)
2. SB 5999 (2003) & SSB 5404 (2003). See also Zarelli Budget Tidbit: *State Tort Liability Costs* (1/11/05).
3. 2SSB 6017 (2004), savings likely higher now given caseload growth since 2004. See also Zarelli Budget Tidbit: *General Assistance Unemployable* (3/1/05).
4. See Zarelli Budget Tidbit: *Career Students* (1/25/05), citing 2004 HECB study.
5. JLARC Performance Audit on *Competitive Contracting* (Jan. '07).
6. JLARC Basic Health Plan Study, Pt. 2 "Who is enrolled? What services do they use?" (Nov. '06).
7. The state is assigned the rights to child support funds for children receiving public assistance monies. A 2002 report found the state wrote-off over \$128 million it was owed in the prior fiscal year. That was the last published report to the legislature before the reporting requirement was eliminated.
8. Nov. '06 Revenue Forecast: Personal Income Growth by CY: 6.8% in 08, 6.8% in 09, 6.3% in 10, 6.0% in 11, 5.5% in 12, and 5.4% in 13